



Legislative Audit Division

State of Montana

Report to the Legislature

November 2002

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Board of Public Education

This report contains an unqualified opinion on the financial schedules and no recommendations to the board.

**Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

02-20B

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

November 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Public Education (board) for the two fiscal years ending June 30, 2002. The objectives of our audit included determining if the board's financial schedules presented fairly its financial position and results of operations at and for the period ending June 30, 2002, and the board's compliance with applicable laws and regulations.

The board was created by Article X, section 9, of the 1972 Montana Constitution. The board consists of three ex officio members and seven members appointed by the governor and confirmed by the senate. A student, selected annually by the Montana Association of Student councils, also sits as a non-voting member of the board.

It is the board's statutory responsibility to establish policies for school accreditation, teacher certification, state equalization aid distribution, special education, school bus standards and various other education related activities. Included in this report is a list of the current members of the Board of Public Education.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued an unqualified opinion, which means the reader can rely on the presented information. The board's response to this report is included on page B-1.

This report does not contain any recommendations to the board. The prior financial-compliance audit report, issued for fiscal years 1998-99 and 1999-00, did not contain any recommendations.

We thank the Executive Secretary and the staff for their cooperation and assistance during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board of Public Education

Judy Martz, Governor*

Linda McCullough, Superintendent of Public Instruction*

Dr. Richard Crofts, Commissioner of Higher Education*

		<u>Term Expires</u>
Dr. Kirk Miller, Chairperson	Havre	2002
Diane Fladmo, Vice Chairperson	Glendive	2005
Storrs Bishop	Ennis	2003
Joyce Silverthorne	Dixon	2004
John Fuller	Whitefish	2008
Patty Myers	Great Falls	2007
Randy Morris	Butte	2006
Derek Duncan, Student Representative	Deer Lodge	2003

*ex officio members

Steve Meloy, Executive Secretary

For additional information regarding the board contact:

Steve Meloy, Executive Secretary
Board of Public Education
PO Box 200601
Helena MT 59620-601
Phone: (406) 444-6576
e-mail: smeloy@bpe.montana.edu

Members of the audit staff involved in this audit were Chris G. Darragh, John Fine, and Amber Long.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures of the Board of Public Education for each of the fiscal years ended June 30, 2001 and 2002. The information contained in these financial schedules is the responsibility of the board's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the board's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Public Education for each of the fiscal years ended June 30, 2001 and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

September 10, 2002

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BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE: July 1, 2001	\$ <u>(10,081)</u>	\$ <u>114,673</u>
ADDITIONS		
NonBudgeted Revenues & Transfers-In	470	
Direct Entries to Fund Balance	<u>185,198</u>	<u>158,695</u>
Total Additions	<u>185,668</u>	<u>158,695</u>
REDUCTIONS		
Budgeted Expenditure	166,135	143,156
NonBudgeted Expenditure		3,228
Prior Year Expenditure	<u>6,486</u>	<u>113</u>
Total Reductions	<u>172,621</u>	<u>146,497</u>
FUND BALANCE: June 30, 2002	\$ <u><u>2,966</u></u>	\$ <u><u>126,871</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE: July 1, 2000	\$ <u>(6,646)</u>	\$ <u>85,540</u>
ADDITIONS		
Budgeted Revenues & Transfers-In		10,000
NonBudgeted Revenues & Transfers-In	199	169
Direct Entries to Fund Balance	<u>147,165</u>	<u>164,549</u>
Total Additions	<u>147,364</u>	<u>174,718</u>
REDUCTIONS		
Budgeted Expenditure	150,799	144,766
NonBudgeted Expenditure		<u>819</u>
Total Reductions	<u>150,799</u>	<u>145,585</u>
FUND BALANCE: June 30, 2001	\$ <u><u>(10,081)</u></u>	\$ <u><u>114,673</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS	
Taxes	\$ 401
Miscellaneous	<u>69</u>
Total Revenues & Transfers-In	470
 Less: Nonbudgeted Revenues & Transfers-In	 470
Actual Budgeted Revenues & Transfers-In	
Estimated Revenues & Transfers-In	<u> </u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u><u>0</u></u>
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS	
Taxes	
Miscellaneous	
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS			
Taxes	\$ 174	\$ 144	\$ 318
Miscellaneous	25	25	50
Grants, Contracts, Donations and Abandonments		10,000	10,000
Total Revenues & Transfers-In	<u>199</u>	<u>10,169</u>	<u>10,368</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>199</u>	<u>169</u>	<u>368</u>
Actual Budgeted Revenues & Transfers-In		10,000	10,000
Estimated Revenues & Transfers-In		10,500	10,500
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (500)</u>	<u>\$ (500)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS			
Grants, Contracts, Donations and Abandonments	\$	(500)	(500)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ (500)</u>	<u>\$ (500)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>ADMINISTRATION</u>	<u>ADVISORY COUNCIL</u>	<u>Total</u>
PROGRAM (SUB-CLASS) EXPENDITURES			
Personal Services			
Salaries	\$ 103,690	\$ 58,526	\$ 162,216
Other Compensation	1,750		1,750
Employee Benefits	22,475	18,982	41,457
Total	<u>127,915</u>	<u>77,508</u>	<u>205,423</u>
Operating Expenses			
Other Services	5,362	26,485	31,847
Supplies & Materials	5,522	4,849	10,371
Communications	2,755	3,238	5,993
Travel	20,716	15,576	36,292
Rent	5,038	4,473	9,511
Repair & Maintenance	324	40	364
Other Expenses	17,030	2,285	19,315
Total	<u>56,747</u>	<u>56,946</u>	<u>113,693</u>
Total Program Expenditures	<u>\$ 184,662</u>	<u>\$ 134,455</u>	<u>\$ 319,117</u>
EXPENDITURES BY FUND			
General Fund	\$ 172,621		\$ 172,621
Special Revenue Fund	12,041	\$ 134,455	146,496
Total Expenditures	<u>184,662</u>	<u>134,455</u>	<u>319,117</u>
Less: Nonbudgeted Expenditures	0	3,228	3,228
Prior Year Expenditures	6,486	113	6,599
Actual Budgeted Expenditures	<u>178,176</u>	<u>131,114</u>	<u>309,290</u>
Budget Authority	188,718	165,161	353,879
Unspent Budget Authority	<u>10,542</u>	<u>\$ 34,047</u>	<u>\$ 44,589</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 10,542		\$ 10,542
Special Revenue Fund		\$ 34,047	34,046
Unspent Budget Authority	<u>10,542</u>	<u>\$ 34,047</u>	<u>\$ 44,589</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

BOARD OF PUBLIC EDUCATION
SCHEDULE OF TOTAL EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>ADMINISTRATION</u>	<u>ADVISORY COUNCIL</u>	<u>Total</u>
PROGRAM (SUB-CLASS) EXPENDITURES			
Personal Services			
Salaries	\$ 89,085	\$ 58,888	\$ 147,973
Other Compensation	1,850		1,850
Employee Benefits	22,344	15,994	38,338
Total	<u>113,279</u>	<u>74,882</u>	<u>188,161</u>
Operating Expenses			
Other Services	16,817	27,320	44,137
Supplies & Materials	5,934	7,362	13,296
Communications	3,064	2,819	5,883
Travel	16,388	15,150	31,538
Rent	4,623	4,473	9,096
Repair & Maintenance	28		28
Other Expenses	2,289	1,993	4,282
Total	<u>49,143</u>	<u>59,117</u>	<u>108,260</u>
Equipment & Intangible Assets			
Equipment		(37)	(37)
Total	<u>0</u>	<u>(37)</u>	<u>(37)</u>
Total Expenditures	<u>\$ 162,421</u>	<u>\$ 133,963</u>	<u>\$ 296,384</u>
EXPENDITURES BY FUND			
General Fund	\$ 150,799		\$ 150,799
Special Revenue Fund	11,622	\$ 133,963	145,585
Total Program Expenditures	<u>162,421</u>	<u>133,963</u>	<u>296,384</u>
Less: Nonbudgeted Expenditures		819	819
Actual Budgeted Expenditures	162,421	133,144	295,565
Budget Authority	180,489	177,260	357,749
Unspent Budget Authority	<u>\$ 18,068</u>	<u>\$ 44,116</u>	<u>\$ 62,184</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 17,326		\$ 17,326
Special Revenue Fund	742	\$ 44,116	44,858
Unspent Budget Authority	<u>\$ 18,068</u>	<u>\$ 44,116</u>	<u>\$ 62,184</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Notes to the Financial Schedules

1. Summary of Significant Accounting Policies

Basis of Accounting

The Board of Public Education (board) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the board records:

Expenditures for valid obligations when the board incurs the related liability and it is measurable. With the exception of the cost of employees' annual and sick leave, state accounting policy also requires the board to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the board receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system with adjustment.

State law requires the board to record its financial transactions on SABHRS in accordance with Generally Accepted Accounting Principles (GAAP). The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to GAAP by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Board accounts are organized in funds according to state law applicable at the time transactions were recorded. The board uses the following funds:

Governmental Funds

General Fund – to account for all financial resources except those required to be accounted for in another fund.

Notes to the Financial Schedules

Special Revenue Fund – to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes.

Board Special Revenue Funds include the Certification Standards and Practices Advisory Council account, the Research Fund account, both of which are funded by teacher certification fee. Special revenue funds also include, the Montana Commission on Teaching account, which is privately funded through the National Commission of Teachers.

2. General Fund Balance

The negative fund balance in the General Fund in fiscal year 2000-01 does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.



Board of Public Education

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October 9, 2002

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

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OCT 11 2002

LEGISLATIVE AUDIT DIVISION

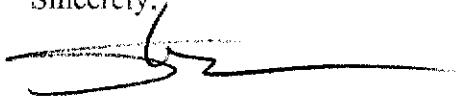
Dear Mr. Seacat:

Following, is the Board of Public Education's response to the report of the Financial-Compliance Audit conducted by the Legislative Audit Division for the two fiscal years ended June 30, 2002. We are pleased that the report contains an unqualified opinion on the financial and other responsibilities of our organization, and that it also contains no audit recommendations. We are also pleased that the Board staff has conducted these responsibilities in an acceptable and practical manner. Subsequently, I believe it will be unnecessary for your staff to conduct an exit conference with us.

On behalf of the Board of Public Education, I wish to thank the audit staff for their professional and considerate manner with which they conducted the audit. With the number of staff members who are fairly new to this organization, the audit proved to be helpful in preparing them for properly dealing with the future financial duties of their positions. I also wish to thank the audit staff for their considerations shown for our workload and responsibilities to the members of the system.

We look forward to seeing your staff again in two years!

Sincerely,


Steve Meloy
Executive Secretary
Board of Public Education